Investor Insights and Outlook

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Let There Be Light

"There is a field beyond all notions of right and wrong. Come, meet me there."
- Rumi, Poet 1207-1273

People. Lots of people. Everywhere I went, every place I visited, every block I walked, no matter the time of day or night. For a guy from a small town, my recent rip to New York City was quite an experience.

On the long flight home, I reflected on what I had seen and heard and learned. The cab driver, the investment banker, the waitress, tourists from Europe, Asia and Africa. People from all walks of life, each with a unique story, each with their own joys and sorrows.

In conversations, many seemed happy and yet others were upset; about a lot of things, some with actual reason. What the discontented shared in common was a critical nature – critical of themselves and critical of others.

Many of us can fall victim to seeing life this way. We suffer from attempting to meet an impossible standard of perfection. We are not good enough, tall enough or smart enough. We examine ourselves and conclude that we are not rich enough, careful enough, tough enough or forgiving enough. We should simply throw in the towel and give up rather than go another day without measuring up.

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James D. Hallett, MSFP CFP AIFA
jim@hallettadvisors.us
360-457-6000

Hallett Advisors
Plan Well • Live Well

Coping With Market Volatility

Global market volatility ramped up last summer as worries about the tenuous state of the Chinese economy shook virtually all major financial benchmarks, indicating once again how interrelated the world's economies and investment markets have become.

Widespread uncertainty has not only heightened anxiety among investors, it was also a likely contributor to the Federal Reserve's decision to leave interest rates near zero when the Central Bank's decision-makers met in September. Indeed, despite the continued strengthening of the U.S. economy, there are many signs that indicate that this turbulent period for stocks may linger indefinitely.

Five Investing Strategies for a Volatile Market

For long-term investors, dealing with volatile markets can be taxing. Here are some points you may want to consider while riding out the storm. None of these should be new to you, but they are particularly important in a turbulent environment, which is where their true value is realized.

1. Don't panic -- When markets become volatile, the gut reaction for most of us is to panic -- to buy when everyone else is buying (and when prices are high) -- and panic sell on the downside (when prices are depressed). Panic selling also runs the risk of missing the market's best-performing days. Consider, for example, that missing just the five top-performing days of the 20-year period from July 1, 1995, through June 30, 2015, would have cost you $21,780 based on an original investment of $10,000 in the S&P 500. Missing the top 20 days would have reduced your average annual return from 9.79% to 3.58%.[1]

2. Take advantage of asset allocation -- During volatile times, riskier asset classes such as stocks tend to fluctuate more, while lower-risk assets such as bonds or cash tend to be more stable. By allocating your investments among these different asset classes, you can help smooth out the short-term ups and downs.

3. Diversify, diversify, diversify -- In addition to diversifying your portfolio by asset class, you should also diversify by sector, size (market cap), and style (e.g., growth versus value). Why? Because different sectors, sizes, and styles take turns outperforming one another. By diversifying your holdings according to these parameters, you can potentially smooth out short-term performance fluctuations and mitigate the impact of shifting economic conditions on your portfolio.

4. Keep a long-term perspective -- It is all too easy to get caught up in the stock market's daily roller coaster ride -- especially when markets turn choppy. This type of behavior is natural, but can easily lead to bad decisions. History shows that holding stocks for longer periods has resulted in a much lower chance of losing money. For example, from January 1, 1926, through June 30, 2015, stocks have never had a period of 20 years or longer where returns were negative.[1] The lesson here? Don't get caught up in day-to-day or even week-to-week variations in stock movements in either direction. Instead, focus on whether your long-term performance objectives, i.e., your average returns over time, are meeting your goals.

5. Consult with a financial advisor. He or she can help you develop a long-term investment strategy and can help you put short-term events in perspective.

No one is certain what impact current drivers of volatility will ultimately have on the economy and financial markets. But as an investor, time may be your best ally. Consider using it to your advantage by sticking to your plan and focusing on the future.

Source/Disclaimer:

[1]ChartSource®, Wealth Management Systems Inc. For the periods indicated. Stocks are represented by the total returns of Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Not responsible for any errors or omissions.

Common Estate Planning Mistakes—and How to Avoid Them

Estate planning can be a minefield of potential missteps, some of which could have far-reaching consequences. Many of the poor choices individuals make when planning for their own future or passing assets to their families are caused by "one-size-fits-all" planning strategies or well-intended advice from family or friends. Following are some common and potentially costly mistakes along with suggestions for avoiding them.

Failing to plan. Whether drafting a basic will or crafting an elaborate strategy involving trusts and tax planning, an estate plan can help reduce estate taxes, save on estate administrative costs and specify how your assets are to be distributed. Today, the majority of Americans have no will. If you die without one, your estate will be divided according to the intestacy laws of your state -- not according to your wishes. This could create problems if your intended beneficiary is a minor child, a child with special needs, a favorite charity, or a combination of the above. In these cases, you need a will that details each contingency and a trust or multiple trusts to accomplish your goals.

Not maximizing your marital estate exemptions.

Perhaps one of the most important pieces of tax legislation passed recently is referred to as the "portability" provision. This means that if one spouse dies without using up his or her federal estate tax exemption -- $5.43 million in 2015 -- the unused portion may be transferred to the surviving spouse without incurring any federal estate tax.

How might the portability provision work in a real life situation? Consider the following scenario involving the hypothetical $8 million estate of Jim and Helen:

If Jim dies in 2015, the executor of his estate can elect to use the unlimited spousal exemption and can also transfer Jim's unused $5.43 million federal estate tax exemption to Helen. If Helen dies in 2015 with $8 million in assets, her estate will have a total of $10.86 million in federal estate-tax exemptions: the $5.43 million exclusion transferred from Jim and her own $5.43 million exclusion. As a result, none of Jim and Helen's $8 million estate would be subject to federal estate tax.

As welcome as the portability provision may be, it still does not account for future appreciation of assets from the first spouse's estate. Nor does portability offer protection from creditors and others aiming to lay claim on an estate's assets. Traditional strategies like credit shelter trusts and bypass trusts do provide these benefits and therefore are still essential planning instruments for married couples.

Naming a family member as executor. Your executor is the person who will be responsible for administering your estate after death. The responsibilities of an executor are serious, and you will want someone who will take them seriously. There are many important reasons to choose a paid executor -- a bank or trust company, for instance -- along with (or instead of) a spouse or family member. A professional executor is familiar with the probate process and may actually save the family money, keeping expenses under control. This will undoubtedly be an emotional time for your loved ones, and a family member may find it difficult to focus on the details involved with settling an estate. In addition, when you name a family member, especially a beneficiary as executor, you introduce the potential for conflict of interest. The larger the estate, the more likely those conflicts become.

Relying on advice from family or friends. Would you go to a friend or relative for surgery or to fix your car if he or she was not a skilled surgeon or auto mechanic? Why would you take their advice about estate planning issues if they are not professional planners? When seeking a professional, look for a specialist -- someone who knows trusts, estate tax law, and probate issues. A specialist will have more experience and skill in his/her chosen area -- and that will translate into higher quality services provided in the most cost effective manner.

No set of rules or advice can apply in all cases, but a sure way to avoid these and other problems is to rely on a trusted team of tax and legal professionals led by your financial advisor.

This communication is not intended to be tax and/or legal advice and should not be treated as such. Each individual's situation is different. You should contact your tax/legal professional to discuss your personal situation.

Let There Be Light

On the other hand, maybe it isn't us but really it's the Others who don't measure up. If we could somehow fix them or simply get by them, life would be better.

Compulsively seeking or even demanding perfection of one's self, or Others, is a difficult if not impossible path littered with disappointment.

I have a better idea. What if each of us, in this time of Family, Thanks and Rebirth simply and graciously accept, focus on and give thanks for what we can all agree on? Let us embrace all the blessings of this life, this family, this planet and the body we inhabit. These blessings may not be perfect but then neither are we or the Others. Still, each of us can commit to make everything just a little bit better.

So let us pause. Breathe. And allow the Light of Hope and Promise to emerge from the darkness. Let's spend less time being critical and more time being grateful. Let's focus more on what is right and less on what is wrong.

There is a field. Come! Let's meet there.

- James D. Hallett

Hallett Advisors

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James D. Hallett, MSFP, CFP®, ChFC, CLU, CDFA™, AIFA®

321 E First Street
P.O. Box 3050
Port Angeles, WA 98362

www.HallettAdvisors.us
jim@hallettadvisors.us
Tel: 360-457-6000